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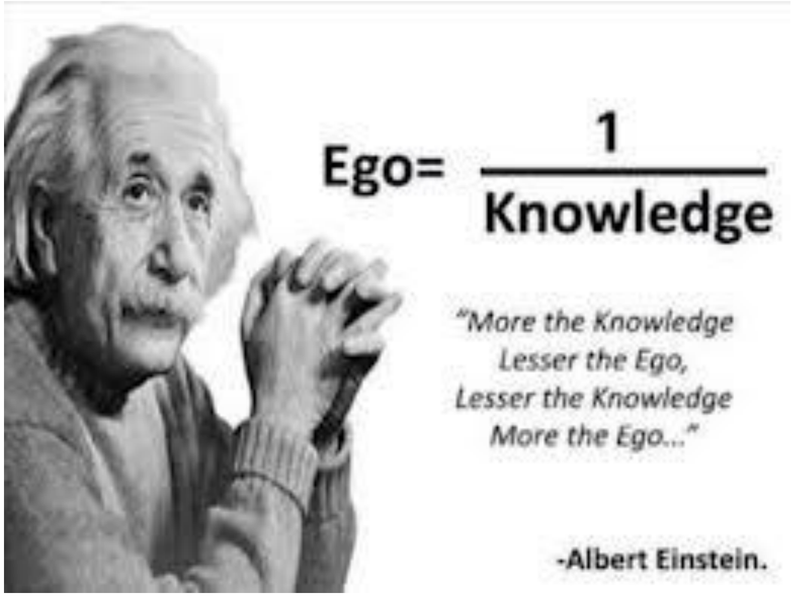
Learn To Love Your Small Losses

"The Trouble With A Loss Is Not Only The Loss Of Money, But Also The Loss of Ego."

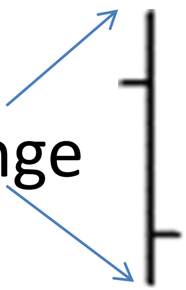
Pat Arbor, Chairman Chicago Board of Trade – world's largest derivatives exchange



How Find The Stop Loss?

- ✓ How find the initial fixed maximum stop loss?

  - ✓ Method Average Range



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How Find The Stop Loss?

- ✓ How find the initial fixed maximum stop loss?
- ✓ Method: Average True Range (ATR)

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Stop Loss Method : Average True Range

- ✓ SL= 2 x ATR. Fixed At Entry
- ✓ Because it is not ‘noise’ if 2 x ATR
- ✓ How find ATR?
  - ✓ Use ATR indicator

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Initial Fixed Stop Loss

2 x ATR = 2% of Total Risk Capital

3 x ATR = 2% of Total Risk Capital

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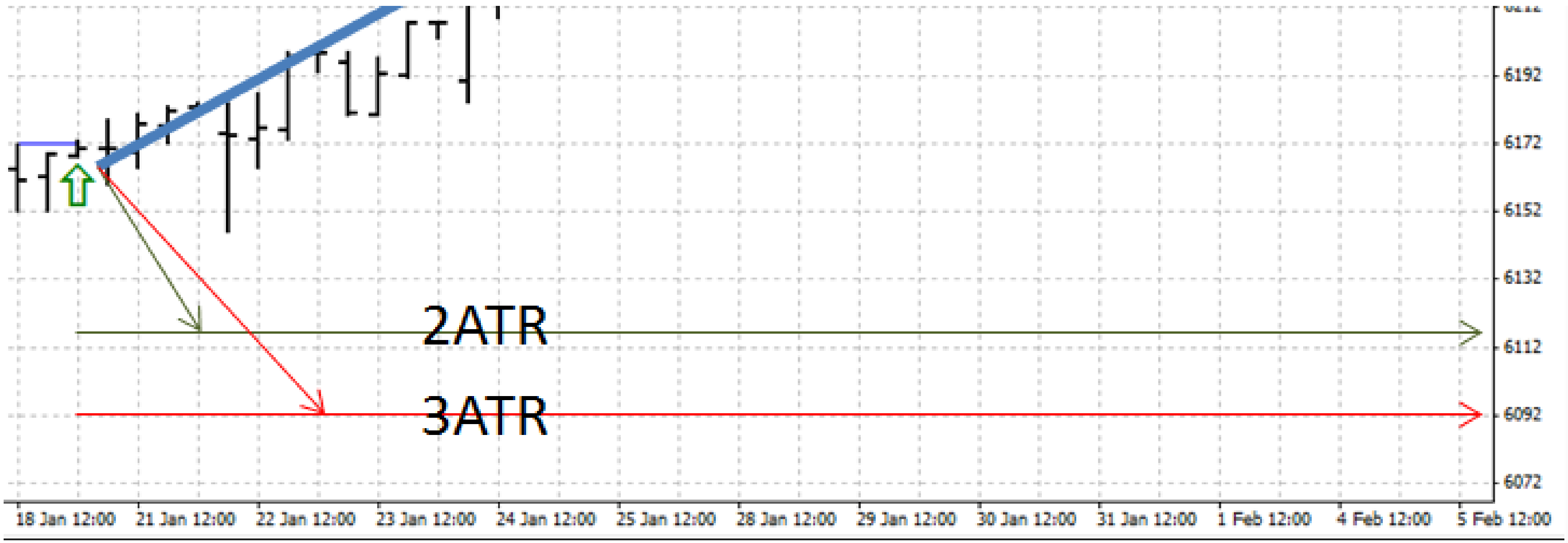
Initial Fixed Stop Loss



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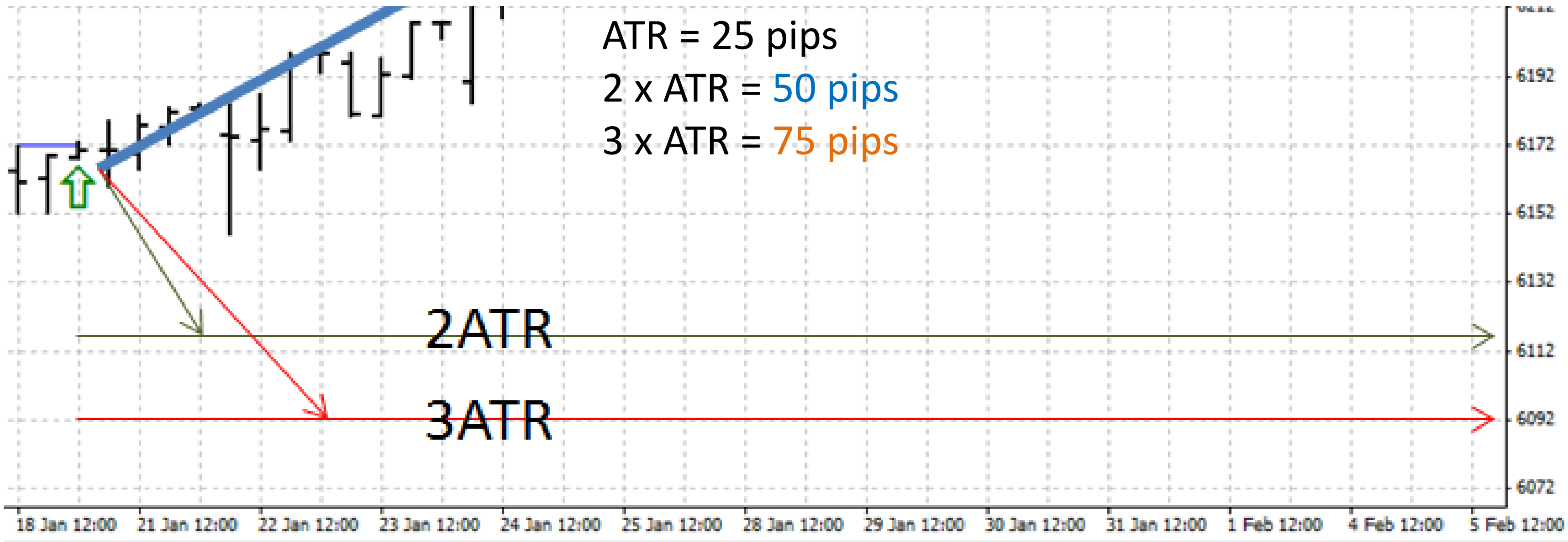
Initial Fixed Stop Loss



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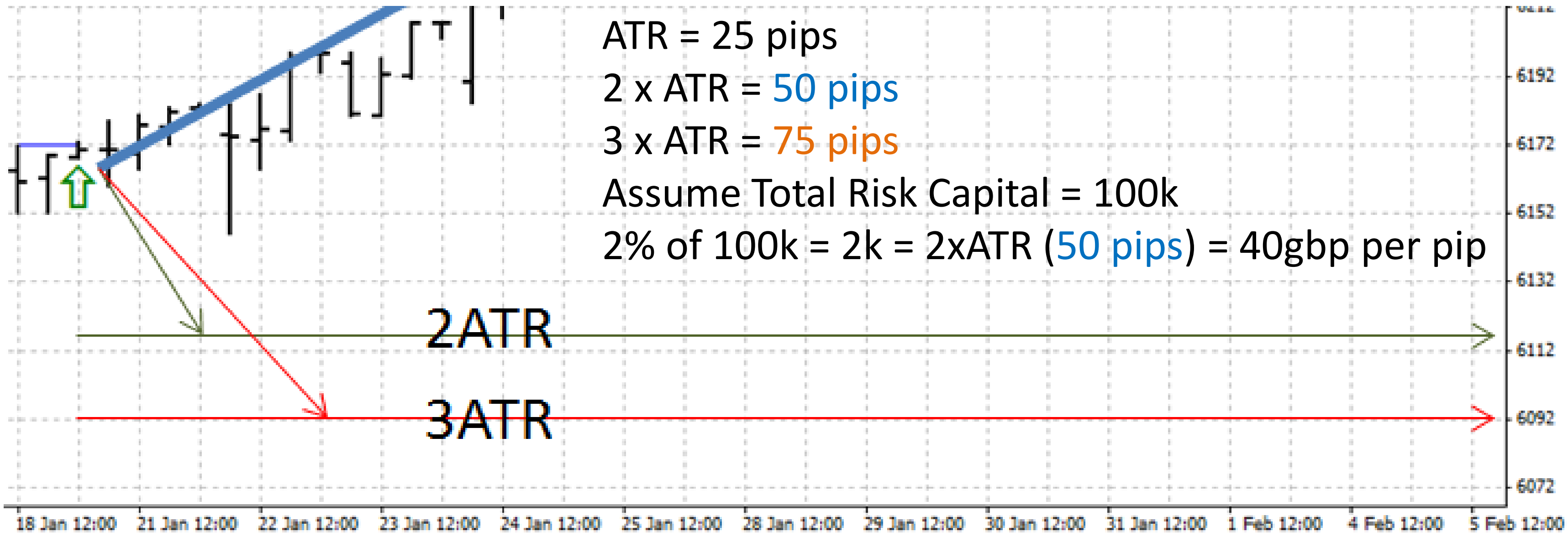
Initial Fixed Stop Loss



ATR = 25 pips

2 x ATR = 50 pips

3 x ATR = 75 pips

Assume Total Risk Capital = 100k

2% of 100k = 2k = 2xATR (50 pips) = 40gbp per pip

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Initial Fixed Stop Loss

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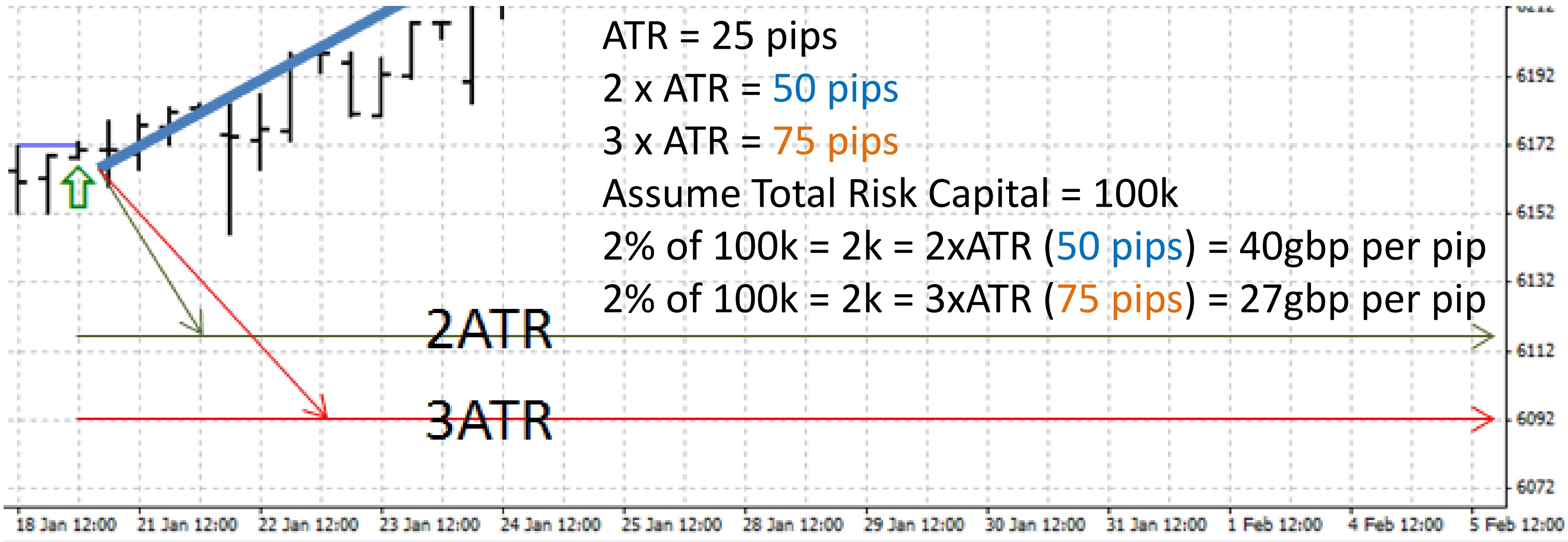
2% of 100k = 2k = 3xATR (75 pips) = 27gbp per pip



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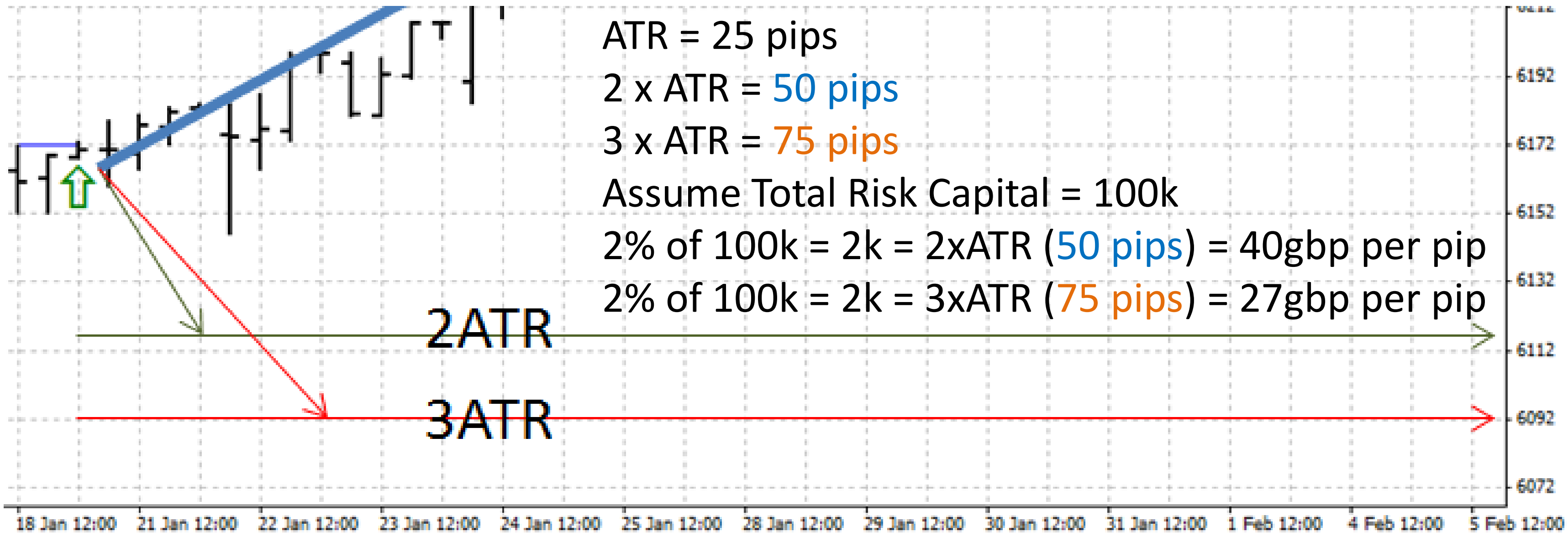
Initial Fixed Stop Loss



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Assume Total Risk Capital = 100k
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2% of 100k = 2k = 3xATR (75 pips) = 27gbp per pip

Note: Loss is 2% of Trading Capital Whether Falls to 2 ATR or 3 ATR

So Why Not 3 x ATR? Because only 27gbp per pip NOT 40gbp per pip so make less profit eventually on winning trades

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So Which Stop Loss?

ATR	Benefit	Costs	Overall
2	Total Loss Is Fixed - 2%	Stopped Out More Often Of Potentially Profitable Trades Than If 3 ATR	Win/Loss Ratio Lower, But Profitability Higher on Wins
3	Total Loss Is Fixed – 2%	Position Size Smaller Than if 2 x ATR So Make Less Profits On Profitable Trades	Win/Loss Ratio Higher, But Profits Lower on Wins

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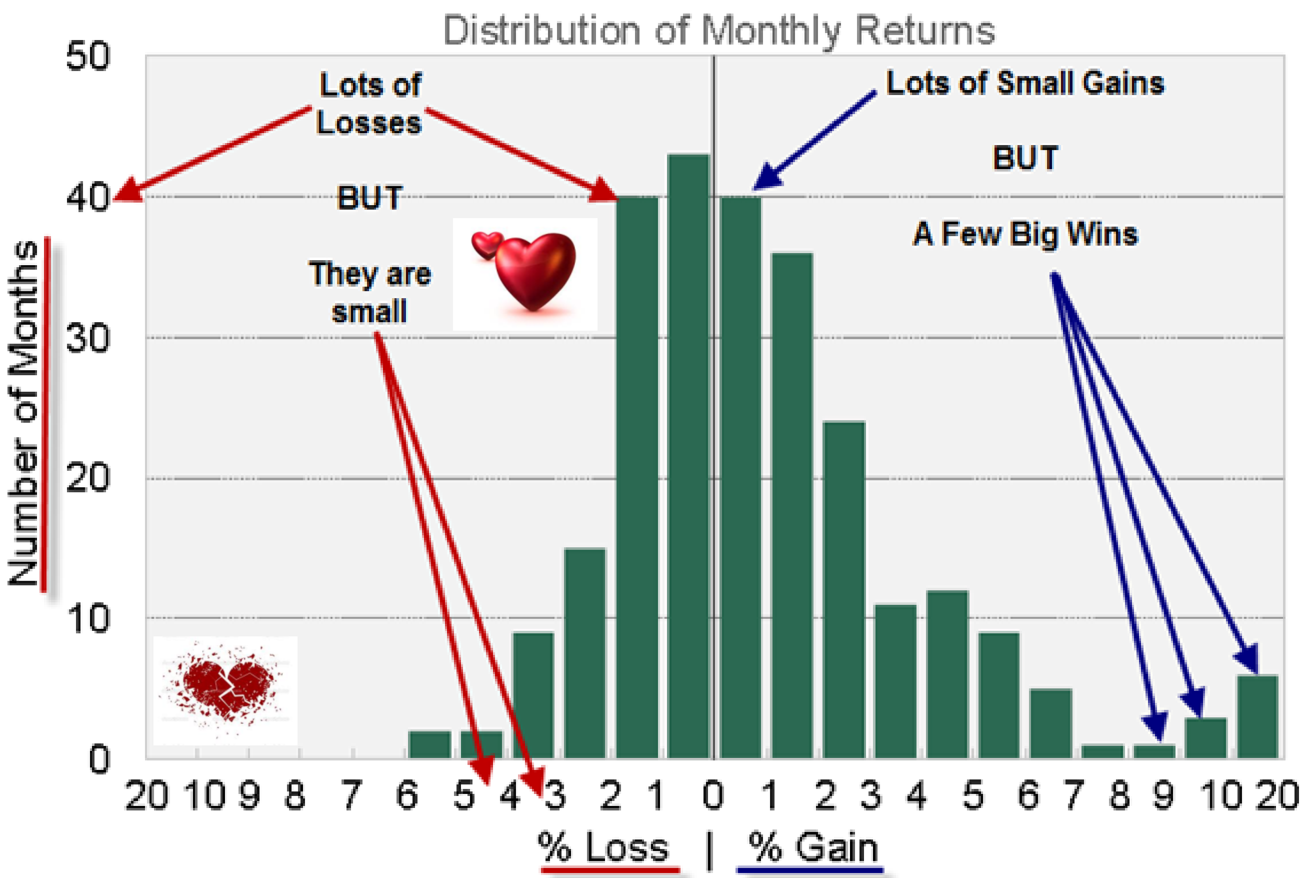

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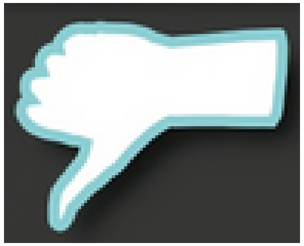
Winners and Losers



Winners	Losers
Add to winning positions	Add to losing positions
Exit losses quickly	Exit profits quickly
Let profits run	Let losses run
Risk 1-2% of capital per trade	Risk 5-10%+ of capital on each trade